RETAKAFUL

Opportunities & Constraints

A Presentation by:

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Outline of Presentation

- Introduction
- ReTakaful worldwide
- Industry Statistics
- Recent Development
- ReTakaful Prospects in Pakistan
- Issues
- The way forward
- Takaful Windows

Introduction

- Preferred type is proportional (quota share or surplus).
- Non proportional permissible.
- If ReTakaful is unavailable, then it is permissible to use a conventional reinsurer.

ReTakaful Worldwide

- Sudan (1979) National Reinsurance.
- Sudan (1983) Sheikhan Takaful Company.
- Bahamas (1983) Saudi Islamic Takaful and ReTakaful Company.
- Bahrain/Saudi Arabia (1985) Islamic Insurance and Reinsurance Company.
- **Tunisia (1985) B.E.S.T. Re**
- **Malaysia (1997) ASEAN ReTakaful International.**
- **Dubai (2005) TakafulRe.**

ReTakaful Worldwide …

- Some conventional reinsurance companies recognizing the active demand for capacity from Takaful companies have formed ReTakaful Pools/Arms/Divisions. Some of these are:
  - Swiss Re
  - Mitsui Sumitomo
  - Hannover Re
  - Kuwait Re
  - Trust Re
  - Labuan Re

Industry Statistics

S. No.	Name of Company	Paid-up Capital	Established in	Country	Rating
1	Takaful Re	USD 125 million	2005	Dubai	Not rated
2	B.E.S.T. Re	USD 55 million	1985	Tunisia	BBB+
3	ASEAN ReTakaful International	USD 14 million	1997	Malaysia	Not rated

Note : Data of other ReTakaful companies is not available

Recent Developments

- Salama has established a ReTakaful Syndicate with Creechurch at Lloyds that is expected to start operations in 2007.
- Tokio Marine ReTakaful also to start writing business in 2007.
- The above are expected to have 'A' rating.

ReTakaful Prospects in Pakistan

- Proliferation of Takaful companies.
- Strategic location.
- Professional expertise.
- PRCL – ReTakaful Pool.

Issues

- Only few globally active companies.
- Capacity constraints.
- Large initial capital required.
- Need for strong and committed sponsors – Meetak Re failure *a major blow*.
- Reliance on Retrocession.
- Different Models.

The way forward

- IPOs.
- Retrocession Pools.
- Securitization/ART.
- Reconciliation of Different Models.
- Collaboration with Takaful Associations ICMIF/Asian Takaful Group.

Takaful Windows

- Background.
- Malaysian Example.
- Conflict of Concept.
- Low Paid-up Capital.
- Dearth of Experienced Professional?
- Regulatory issues.
- Transparency.
- Foreign Investment.

Takaful Windows

- Background.

Takaful Rules 2005 were notified last year after protracted deliberations on the issue of allowing window operations to the conventional insurers. Despite considerable pressure from certain vested interests, convincing and logical arguments against window operations prevailed and finally the Ministry of Commerce notified the said rules specifically disallowing window operations. Of late, however, the issue of allowing window operations is being raised again on the pretext that it will 'give a jump start' to the Takaful industry. This, apart from being to the contrary, will seriously undermine the Takaful concept in the country and the general public will be misled and confused.

Takaful Windows

- Malaysian Example.

Malaysia, being the market leader, is looked upon as the role model for Islamic Banking and Takaful. Their regulators are on record having admitted their ‘mistake’ in allowing window Islamic Banking operations some 15 years back. They subsequently rectified the situation and last year issued directive to all banks to convert their Islamic windows into separate subsidiary companies/banks. Even when the allowed Islamic windows in banks, they still did not allow Takaful windows to conventional insurers as they strongly felt, and still do, that it would be detrimental to the cause of Takaful itself.

Takaful Windows

- Conflict of Concept.

Unlike banks, there is a clear conflict in the concept of conventional insurance viz-a-viz the Takaful insurance. Conventional insurance is a **risk transfer mechanism.** This means, that the risk is **transferred** from the individual/policy holder to the insurance company. This, according to the Shariah scholars, is not permissible in Islam. Takaful, on the other hand, is **risk sharing mechanism,** which is in conformity with the Shariah. Thus these two conflicting concepts cannot be reconciled within the ambit of a single company.

Takaful Windows

- Low Paid-up Capital.

Whereas the minimum paid-up-capital required for setting-up a new bank has already been enhanced to Rs.6 billion, the capital required for setting-up a new Takaful/Insurance company is far too low i.e. Rs.80 million for general and Rs.150 million for Life/Family business. Although, the SECP is considering to increase these figures progressively to Rs.500 million by the year 2011, it still very low compared to the banks. Hence, even if banks stand justified to be allowed window operations instead of separate subsidiaries, the same cannot be held as justifiable for Takaful operations.

Takaful Windows

• Dearth of Experienced Professionals?

This excuse put forward by the conventional insurance companies is a myth. There are a large number of young, competent and qualified professionals within the insurance industry who are not getting proper exposure and respectable salaries. In fact, there is an enormous difference between the salaries and perks enjoyed by the top-most hierarchy of the insurance companies and those of their junior and middle management level employees. Due to such tendency of exploitation, a significant number of such insurance professionals have moved to the Middle East. Given the right incentives, they shall return and will be a valuable asset for the emerging Takaful companies due to their enriched experience. A similarity in this area can be drawn from the banks which faced a similar situation but over the last ten years several Pakistani banking professionals have returned from abroad and are currently serving in Pakistan.

Takaful Windows

- Regulatory issues.

In contrast with the banks in Pakistan which are very well regulated and monitored by the State Bank of Pakistan that itself incorporates competent professionals to ensure that their stringent requirements are fully complied with, the insurance regulatory regime has undergone several changes in the recent past. First, the role of regulator was switched from the Controller's office under the Ministry of Commerce to the Insurance Division of the SECP just a few years back. Then in the year 2000 the age old Insurance Act 1938 was repealed and replaced by the Insurance Ordinance 2000. Several areas thereof still need correct interpretation and clarification. Currently there are several loopholes that are being exploited by the conventional insurance industry. Several malpractices have also cropped up over the years within the conventional insurance circles who have come to regard these as 'marketing techniques' rather than malpractices. If such elements are allowed to open up Islamic windows with the same mindset, the same malpractices will be introduced in Takaful as well.

Takaful Windows

- Transparency.

It is argued that by the very reason of Life Assurance maintaining a separate Policy Holders' Fund, it stands to qualify to open Takaful windows. If this argument is taken, then their next logical step would be to ask for Takaful windows in General Insurance on the plea of setting-up a separate Takaful Fund. Since the intentions would only be not to lose their clientele who would prefer to switch over to Takaful, they, by merely setting-up a separate fund would be able to hoodwink the public and introduce malpractices in Takaful as well. Furthermore, it will not be possible to clearly segregate the expense allocation between conventional and Takaful operations within the same company as just by arbitrary percentage allocation of expense is not an ideal solution. Thus there will be an inevitable mix between the 'right' and the 'wrong' which is contrary even to the Quranic injunction: ***"And mix not, the Right with the Wrong; and hide not the Truth when you know it"*** *(Al Baqara, verse 42).*

Takaful Windows

- Foreign Investment.

There are currently a number of foreign investment groups and Takaful companies who are actively contemplating and are in touch with certain local groups in Pakistan to jointly set up new Takaful companies. If windows are allowed to the local insurance companies, such foreign investors shall be discouraged.

End of Presentation

Jazakalllah al khair